

FLIGHT

The Flight and Partners Recovery Fund Limited

Adviser's Quarterly Report for the
Quarter ending 30th June 2022



July 2022

Rcapital

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Introduction

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Fund Overview

The Flight and Partners Recovery Fund Limited (the “Fund” or the “Flight Fund”) is a Guernsey-domiciled closed-ended investment company listed on The International Stock Exchange (“TISE”). The Fund aims to achieve attractive risk-adjusted returns over the economic cycle through investment in stressed and distressed UK businesses with fundamentally sound business models with strong prospects for turnaround and restructuring.

The Fund invests in transactions that are originated, executed and managed by Rcapital Partners LLP (“Rcapital” or the “Investment Adviser”). Rcapital aims to use its financial restructuring and operational turnaround capabilities to improve the performance of the acquired businesses.

The Fund’s investments are made in the form of loans that are secured against the underlying assets in the investee companies. Loans are provided at a minimum interest rate of 10% or 6% over base rate, whichever is higher. The Fund typically also receives an equity stake in the investee company at zero or nominal cost.

The Fund’s investments are valued in accordance with the International Private Equity and Venture Capital valuation guidelines (“IPEV”). Equity interests in investee companies are reviewed with the Auditors and, where they are deemed to have value, this is included in the net asset value of the Fund.

In January 2021 the Fund issued £14.9m of new redeemable preference A Shares (the “**A Share(s)**”). At the same time, investors in the existing share class (the “**Ordinary Share(s)**”) holding 3.1m of shares with an NAV of £5.6m voted to retain their holdings. The combined share classes therefore had a net asset value of £20.5m as at 6th January 2021. The A Shares will now invest in new transactions alongside the continuing investors in the Ordinary Shares, pro-rata to the amount of cash available in each share class.

UK Economic Indicators (figures in brackets are previous quarter)

GDP growth (Jan to Mar):

0.8% (1.3%)

Inflation:

9.1% (6.2%)

Unemployment:

3.8% (3.8%)

Bank of England Interest Rate:

1.25% (0.75%)

FTSE (change since last quarter):

-4.6% (1.8%)

Quarterly Summary

The quarter to June 2022 saw a continual softening of the UK economic climate. Inflation increased above 9%, its highest level in 40 years, impacting on consumer spending and business investment. To combat inflation, the Bank of England raised base rates further by 0.5% to 1.25% in the period. As a result of all this, GDP growth slowed to 0.8%, and the FTSE was down 5% over the quarter on the expectations of a potential recession in H2 2022.

New deal activity at Rcapital continued to rise as a result of pressure on UK businesses. In the first half of 2022, Rcapital reviewed 528 new opportunities, a 113% increase from the prior year. We are currently well progressed on some exciting new deals and anticipating that we will close at least one new investment in Q3.

Pleasingly, the current portfolio is generally displaying robust trading in light of these challenges:

- Nasmyth is trading in line with expectations and we remain very excited by its value creation potential;
- Richard Irvin continues to trade well and in line with budget;
- Patrick Parsons is demonstrating consistent profitability and benefitting from the restructuring in late 2021;
- FAE Group is demonstrating continued growth in its music catalogue.

We are in the process of disposing of Independent Group, having sold two of its three divisions in Q2.

Overall we expect the market for special situations investment to be very positive over the medium-term. Given we are over 80% deployed on the funds raised in 2021, we will shortly be launching a process to raise additional capital into the Fund to allow us to take advantage of these opportunities.

Sources: Bank of England, ONS, LSE

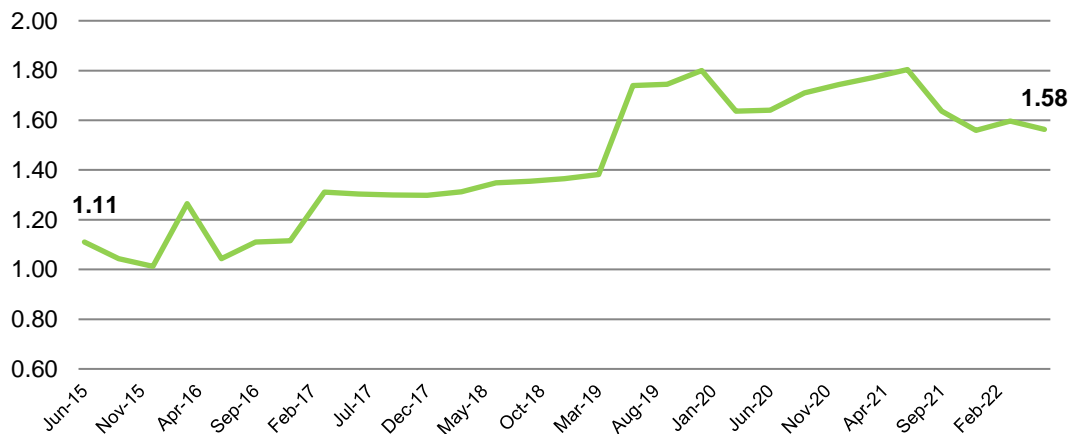
3 Fund Performance – Ordinary Shares

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Quarterly NAV per Ordinary Share

Year	Q1		Q2		Q3		Q4		YTD
	Price	% Change	Price	% Change	Price	% Change	Price	% Change	
2015	1.0239	4.44%	1.1108	8.48%	1.0441	(6.00%)	1.0120	(3.07%)	3.85%
2016	1.2651	25.00%	1.0438	(17.49%)	1.1105	6.39%	1.1160	0.49%	14.39%
2017	1.3108	17.46%	1.3037	(0.54%)	1.2998	(0.30%)	1.2989	(0.06%)	16.55%
2018	1.3129	1.07%	1.3488	2.73%	1.3546	0.43%	1.3581	0.26%	4.50%
2019	1.3653	0.53%	1.7391	27.38%	1.7452	0.35%	1.7999	3.14%	31.40%
2020	1.6368	(9.06%)	1.6411	0.26%	1.7100	4.20%	1.7434	1.95%	(2.65%)
2021	1.8853	8.14%	1.9166	1.66%	1.6365	(14.62%)	1.5595	(4.70%)	(9.52%)
2022	1.5966	2.38%	1.5812	(0.96%)	-	-	-	-	1.42%

Historical NAV per Ordinary Share



- The NAV per Ordinary Share as at 30th June 2022 is £1.5812 per share, a decrease of 1.0% from the previous quarter. The Fund remains 1.4% up in the YTD.
- The decrease was primarily due to a deterioration in the value of the Fund's equity stake in Independent Group, reflecting challenging trading conditions and the latest expectations of value realisation.
- The Fund is up 42% over the last 7 years. This is behind the long term performance target and reflects a challenging period for the portfolio in 2020 and 2021 in the aftermath of the Covid pandemic.

Gross & Net Asset Value attributable to Ordinary Shares

NAV Analysis (£m)	Jun-22	Mar-22	Diff
Cash	0.7	0.2	0.5
Loans	2.3	2.3	-
Equity / Make Good	7.4	7.6	(0.2)
Other Assets	0.1	0.3	(0.1)
Gross Asset Value	10.5	10.4	0.1
Other Liabilities	(5.6)	(5.5)	(0.2)
Net Asset Value	4.9	5.0	(0.1)
Shares in issue (000s)	3,101.0	3,101.0	-
NAV per share (£)	1.5812	1.5966	(0.0154)

- The gross asset value (GAV) attributable to the Ordinary Shares was £10.5m at 30th June 2022, an increase of £0.1m from the previous quarter.
- The value of the Fund's equity stakes decreased by £0.2m, particularly as a result of a write-down in the value of the Fund's stake in Independent Group.
- The cash balance has increased by £0.5m as a result of interest income received and working capital movements.
- Other Liabilities principally relates to the payments owing to redeeming shareholders, which are expected to be paid out during 2022. The balance outstanding was reduced to update for the latest equity and debt values.

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Portfolio Update



Summary of Portfolio Holdings by Share Class

Portfolio Company	Business Overview	Flight Fund Loan (£k)		Flight Fund Equity	
		Ordinary	A Shares	Ordinary	A Shares
FAE Ventures	Music Publishing	481.6	6,343.3	-	-
Independent Group	Insurance Support Services	1,029.2	-	20.5%	-
Nasmyth Group	Aerospace Engineering	291.7	5,208.3	1.2%	20.7%
Patrick Parsons	Engineering Consultancy	13.4	186.6	1.5%	20.5%
Richard Irvin	Facilities Management Provider	500.0	-	23.7%	-

Company Name:

Independent Group

Website:

www.independentgrouppltd.co.uk

Sector:

Business Services

Description:

Outsourced service provider to the insurance industry

Date of Investment:

March 2016

Flight Fund loan:

£1,029,194

Flight Fund equity stake:

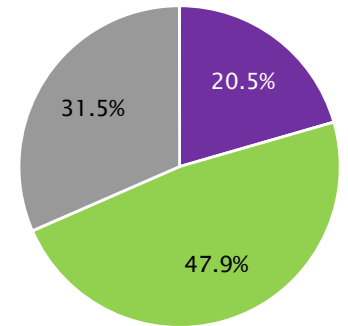
20.54%

Summary

Independent Group was the holding company for a group of companies which provide a wide range of outsourced services to the insurance industry relating to domestic and commercial claims. Their brands included:

- Ansa Drainage Solutions – which validates and fulfils drainage claims;
- ChemDry – a leading fire and flood disaster remediation provider; and
- Independent Inspections – which specialises in handling water damage claims.

The Fund's loan to the company, originally totalling £1.5m, was made via two Rcapital loan companies, FCAP Six Limited and Blackstar 2016 Limited. To date Independent has repaid a total of £470,806.

Ownership Structure

- Flight Fund Equity Stake
- Rcapital Equity Stake
- Management Equity Stake

Financial Commentary

As previously reported, Independent has suffered from a challenging trading environment post-Covid following structural changes in its market.

In light of this, the board, in collaboration with Rcapital, took immediate action in assessing the optimal strategic options for the group.

The largest division, Independent Inspections, had become unprofitable and the trade and assets were sold to a competitor in May 2022. The upfront proceeds were used to repay senior bank debt, with various future payments becoming due based on performance.

A second division, Ansa, was sold in June 2022 to a different trade acquirer. Again, the proceeds were used predominantly to settle the remaining outstanding senior debt and other costs.

The board is now exploring strategic options for the final division, Chemdry, with a view to seeking an optimal return for the Fund and its investors.

Company Name:

Richard Irvin

Website:

www.richard-irvin.com

Sector:

Business Services

Description:

Leading provider of technical facilities management services

Date of Investment:

December 2018

Flight Fund loan:

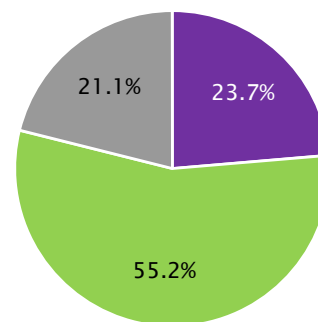
£500,000

Flight Fund equity stake:

23.67%

Summary

- Richard Irvin is a leading facilities management company based in Aberdeen that works mainly for local authorities and commercial clients in Scotland and the UK and has contracts to support a number of key Ministry of Defence sites.
- The business has 6 offices across Scotland and employs approximately 340 people, including 250 field engineers.
- The business provides a range of hard FM services, including technical FM, managed services, housing services, energy services, small projects and compliance.
- The company has a number of public and private sector clients to whom it provides maintenance and repair services for over 9,000 commercial properties and 56,000 domestic properties on a 24/7 basis.

Ownership Structure

- Flight Fund Equity Stake
- Rcapital Equity Stake
- Management Equity Stake

Financial Commentary

Richard Irvin continues to display strong performance. Revenue is ahead of budget for the quarter and YTD, and profits are in line with expectations.

The key divisions of Managed Services and Mobile Services are both ahead of budget for the quarter and YTD, and the pipeline in Housing Services and Energy & Projects is looking increasingly positive.

Company Name:

Patrick Parsons

Website:

www.patrickparsons.co.uk

Sector:

Business Services

Description:

Engineering consultancy to the built environment

Date of Investment:

March 2021

Flight Fund loan:£13,400 Ordinary Shares,
£186,600 A Shares**Flight Fund equity stake:**1.5% Ordinary Shares
20.5% A Shares**Summary**

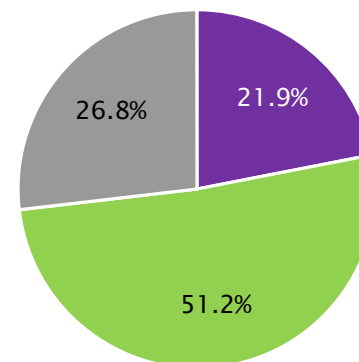
PPCP Limited ("Patrick Parsons") is a full service multi-disciplinary engineering consultancy to the built environment.

The group is headquartered in Birmingham with 3 further UK offices and 100 engineers, generating annual turnover of c.£10million.

The business offers a one-stop solution of engineering disciplines: Civils, Structural and Geo-environmental. The company serves a range of blue-chip clients in the construction, infrastructure and house-building industry, with many under framework contracts.

The Flight Fund has provided a £750k loan facility (of which £200k has been drawn) to finance the acquisition of the company and support growth in the business and has taken an equity stake alongside Rcapital.

On 23 December 2021, a restructuring of the Patrick Parsons group was completed, in order to simplify the historic group structure.

Ownership Structure

- Flight Fund Equity Stake
- Rcapital Equity Stake
- Management Equity Stake

Financial Commentary

Patrick Parsons had another good quarter, demonstrating continued strong progress following the restructuring in December 2021.

Revenue was marginally behind budget but ahead of the prior year. EBITDA is ahead of both budget and prior year for the YTD.

The company has a strong bid pipeline and seeing good levels of activity, despite the cost headwinds in the construction market.

Company Name:

FAE Ventures

Website:<https://www.faegrp.com>**Sector:**

Media & Entertainment

Description:

Music publishing company

Date of Investment:

June 2021

Flight Fund loan:£481,647 Ordinary Shares,
£6,343,252 A Shares**Flight Fund equity stake:**

n/a

Summary

FAE Ventures Limited ("FAE", formerly First Access Entertainment Ltd) is a music publishing company. It identifies, develops and produces new musical talent, typically taking a c.50% share in the music IP developed and therefore any royalty income generated.

The company has a stable of well-known artists and generates consistent levels of monthly royalty income, predominantly through the digital music platforms such as Spotify and Apple Music.

In 2020 the music portfolio generated gross royalty income of £8.4m and net income of £3.6m (after distribution costs and artists' share). Via a UK SPV, the Fund has provided a loan of £6.43m secured against this IP (and all other assets of the company). The loan is for 12 months, with the potential to extend to 18 months, and is expected to generate a return in excess of the minimum hurdle for the Fund. The fair value of the loan has subsequently been increased to reflect contracted future profit share payments to the Fund.

There is currently an active investment market for music portfolios such as this, due to the annuity income they generate. Independent analysis undertaken suggests that average multiples paid for portfolios are around 15.9x annual average earnings, with a range between 6.5x and 26.2x.

The FAE portfolio has been independently valued by an expert at over 4x the value of the Fund's loan. The loan is secured against this portfolio, providing strong asset-backing.

Financial Commentary

FAE continued its strong recent trading, with EBITDA ahead of budget for the quarter and full year.

Music catalogue revenues have demonstrated consistent good performance. Pleasingly, musical performance and management fee revenue has also recently shown a positive recovery and is now tracking ahead of budget.

The forecast for 2022 sees a continuation of this trend, with performance and management fee income forecast to be 17% up on the prior year.

In addition, the company currently has £7.6m of cash on its balance sheet, which more than covers the outstanding amount on the Fund's loan.

Company Name:

Nasmyth Group

Website:

www.nasmythgroup.com

Sector:

Aerospace Engineering

Description:

Manufacturer of precision engineered components for the aerospace industry

Date of Investment:

February 2022

Flight Fund loan:

£291,736 Ordinary Shares

£5,208,271 A Shares

Flight Fund equity stake:

1.2% Ordinary Shares

20.7% A Shares

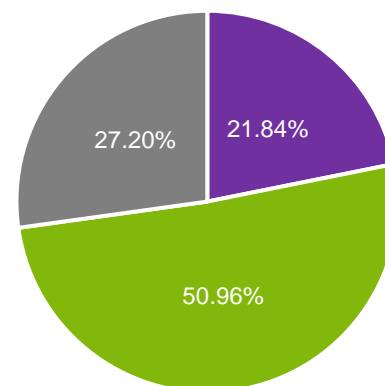
Summary

Nasmyth Group is a provider of specialist precision engineering services to the aerospace, defence and related industries.

The business is headquartered in the Midlands with international operations in the US, Philippines and India. The Group achieved sales of over £80m pre-COVID but was negatively impacted by the dramatic drop in demand for passenger air transport during the pandemic.

Following a competitive and complex transaction process, Rcapital acquired the business in February 2021, providing the business with £20m in new long term debt facilities from a senior bank and the Flight Fund.

The long-term trends in air travel globally remain strong, and this investment will enable Nasmyth to take full advantage of opportunities within the market as aviation volumes return. Working alongside the existing management team, Rcapital will remain actively involved to support management, driving performance improvement and acting as a catalyst for growth.

Ownership Structure

- Flight Fund Equity Stake
- Rcapital Equity Stake
- Management Equity Stake

Financial Commentary

Following the acquisition of Nasmyth Group in February 2022 we have spent a huge amount of time working with management to understand the opportunities for growth and operational improvement in the business.

Trading has been largely in line with expectations and the company has been profitable at an EBITDA level.

We remain very excited about the prospects for the business, given the opportunities for a continued market recovery in the aviation sector, and the potential to drive operational improvement and margins in the business. We have already extracted significant cost savings and the group is now demonstrating consistent levels of run-rate profitability, and is well positioned for a further market recovery.



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